Sustainable Tourism Development in the Baltic Sea Region

A guideline for developing sustainable tourism products

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Wolfgang Günther
Imke Meinken
Karen Winkler

Institut für Tourismus- und
Bäderforschung in Nordeuropa GmbH
Wrangelstr. 16, D -24105 Kiel
Email: info@nit-kiel.de, www.nit-kiel.de

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Client: Prof. Dr. Wilhelm Steingrube
                 Ernst-Moritz-Arndt Universität Greifswald
                 Institut für Geografie
                 Makarenkostraße 22
                 D - 17487 Greifswald

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                 Institute for Tourism and Recreational
                 Research in Northern Europe, Kiel

                 Wolfgang Günther
                 Dr. Imke Meinken
                 Karen Winkler

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Content

Figures

Checklist

The following checklist summarises the main aspects that you should undertake in order to develop a sustainable tourism product. You can use this checklist to develop new products as well as to review already existing products. Explanations for each of these aspects are provided in this guideline.

Step 1: Situation analysis

☐ Have you undertaken the demand, supply, competitor and trend analyses?
☐ Have you undertaken a SWOT analysis, i.e. assessed your strengths and weaknesses and the external opportunities and threats?

Step 2: Define aims

☐ Have you defined the most important aims for your project?
☐ Are your aims easy to understand, specific, measurable and realistic?
☐ Do your aims have a timeframe?

Step 3: Define strategies

☐ Have you defined your target market(s)?
☐ Have you defined the customer needs of your target market(s)?
☐ Have you defined the USP(s) and customers' benefits of your product?
☐ Have you considered cooperating with other suppliers in order to provide a better product? If you want to do this, which suppliers would be suitable?

Step 4: Determine and describe product components

☐ Have you put together all necessary product parts?
☐ Have you designed your product in such a way that it meets the requirements of sustainability?
☐ If required, have you made arrangements with your cooperation partner(s)?
☐ Have you described your product in such a way that it is presentable and attractive to the potential consumer?
☐ Have you considered whether you should push the 'sustainability aspect' of your product to the potential consumer?

Step 5: Select distribution channels

☐ Have you gathered information about your target markets' preferences regarding the use of distribution channels?
☐ Have you selected the most appropriate distribution channels for your target markets?

Step 6: Select and design promotion channels

☐ Have you selected the most suitable promotion tools for your chosen distribution channels?
☐ Have you considered the following aspects in designing your communication:
  ☐ Your customers' needs and benefits?
  ☐ Your product's USP?
  ☐ The detailed product information developed in step 4?
  ☐ The issue of sustainability?
☐ Have you considered the AIDA principle in designing your communication?

Step 7: Pricing

- ☐ Have you determined all of your variable costs and calculated these for different sales levels?
- ☐ Have you determined all of your fixed costs?
- ☐ Have you calculated the break-even point and selling price for your product?
- ☐ Have you considered your selling price in terms of what customers are willing to pay and what competitors charge for the same or similar products?
- ☐ Have you considered a differentiated pricing strategy (e.g. different prices for low and high season)?

Introduction

The aim of this part of the agora tool box is to provide an instrument for developing sustainable tourism products. This paper represents the final step in reaching this aim by providing a guideline on how to develop sustainable tourism products.

Why do we need a guideline on product development?

There are two reasons for including this topic into the agora toolbox:

► Tourism products strongly rely on natural resources, if these are not used or managed in a sustainable manner, tourism threatens to damage the very basis it exists on. Hence, developing sustainable tourism products is crucial for developing sustainable tourism in the Baltic Sea Region.

► Market conditions are becoming increasingly difficult within the tourism industry. Different trends on both supply and demand sides force suppliers to adapt to increasing competition, whereas consumer demands are becoming more differentiated, for example. These are just two examples of many changes in the tourism industry[1]. In order to encounter these, suppliers need a well-developed tourism product that has a competitive advantage and meets consumer demands at the same time.

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[1] For more details see the document 'Overview of existing tools and methods for developing sustainable tourism products' (Paper I)

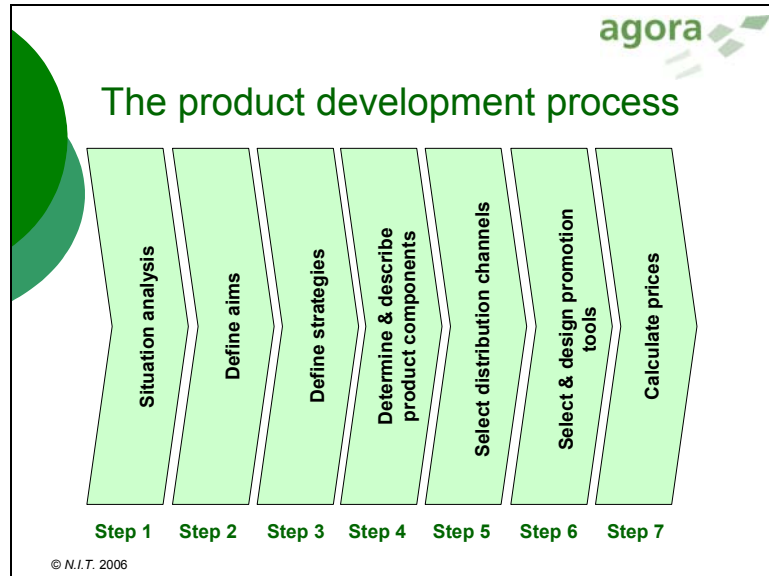**What is a sustainable tourism product?**

The term 'tourism product' can be used in two ways: It can mean the overall tourist experience that a destination provides or it can be applied to just one single product offer. This guideline builds on the latter definition which means a clearly defined and bookable service which can either consist of a single service (only one component) or of several services (package) (Wilken, Bausch and Brittner 2005).

A sustainable tourism product is one '[…] that use resources in an environmentally responsible, socially fair and economic viable way, so that users of the product can meet their current needs without compromising future generations from being able to use the same resources' (Font and Carey 2005, p. 9). Hence, in order to create a sustainable tourism product, you need to consider these three perspectives when putting the product together. There are many ways through which you can do this and examples of possible measures will be given later on.

The product development process

If you are reading this guideline, then this is probably because you have an idea about a tourism product that you want to develop. This idea is really the starting point which needs to be refined and implemented by going through the different steps of the product development process (see Fig. 1). You can use these steps to develop new products, but also to redesign already existing offers. Each of these steps will be explained in the remainder of this guideline.

Fig. 1: Steps in product development

The product development process

Situation analysis | Define aims | Define strategies | Determine & describe product components | Select distribution channels | Select & design promotion tools | Calculate prices

Step 1   Step 2   Step 3   Step 4   Step 5   Step 6   Step 7

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Source: Günther, Meinken and Winkler 2006a

Practical remarks

The present guideline is based on two previous papers which have also been produced within the agora project. The first of these papers provides an overview on the product development process and the second a comparative assessment of existing tools and methods for product development[2]. Due to spatial constraints, the present guideline occasionally has to refer to these earlier papers, these are then called 'Paper I' and 'Paper II' to simplify matters.
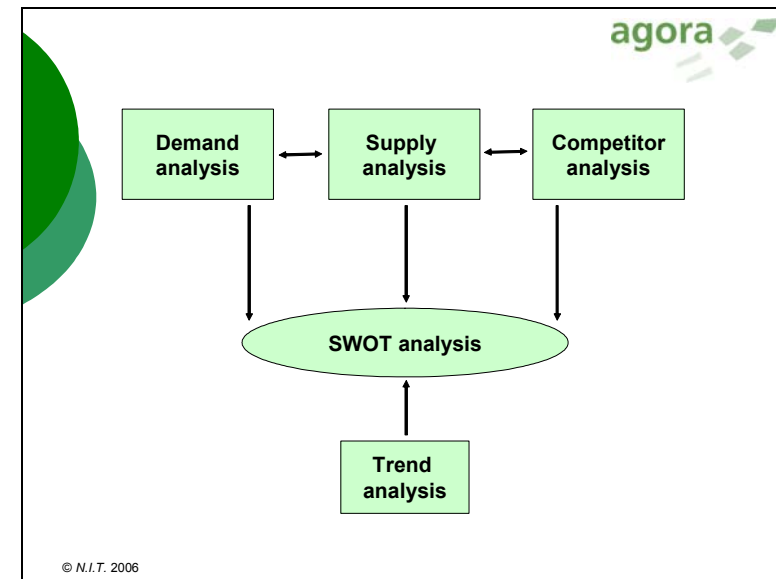
[2] Both documents are available on www.agora-tourism.net

A step by step guide to product development

Step 1: Situation analysis

This first step in product development is crucial as it sets the basis for all subsequent decisions regarding the product that you want to develop. The situation analysis itself includes several steps which **build on each other**, which means that you have to undertake them in a certain order! The different steps are illustrated in Fig. 2 and described in more detail in the following.

Fig. 2: Steps in a situation analysis

Demand analysis — Supply analysis — Competitor analysis

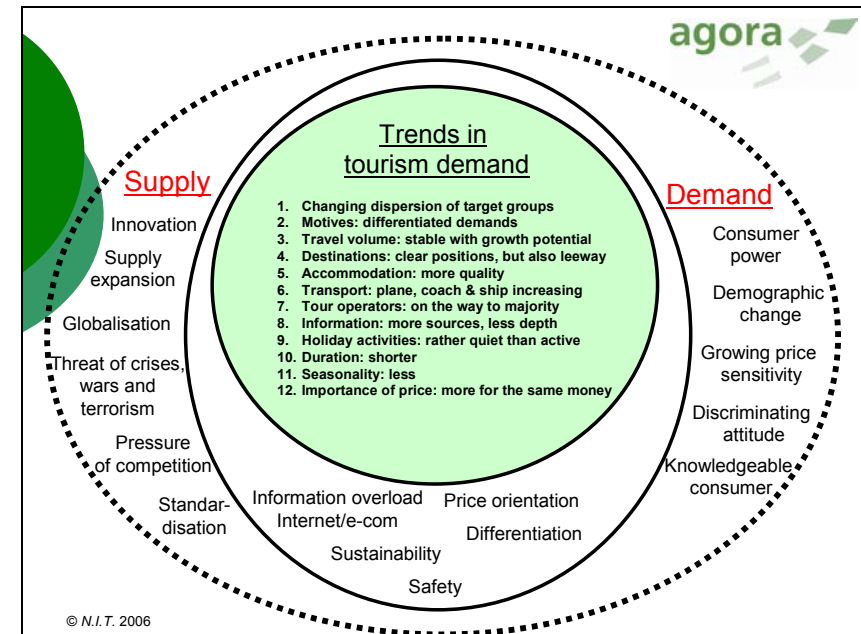SWOT analysis

Trend analysis

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Source: adapted from Zimmer and Grassmann (no date)

First of all, you should undertake four different analyses: a demand analysis, a supply analysis, a competitor analysis and a trend analysis. The general rule for this should be to include only truly relevant information; otherwise, it becomes a very costly and time-consuming exercise. Furthermore, you should always check first whether the required information exists already. Local or regional tourist boards, for example, often have information on such issues. If this is not the case, you may want to undertake your own research to obtain this information.

► **Demand analysis**: this provides you with a quantitative and qualitative overview of tourists who already visit your destination (in which the product is or will be based) and possibly the tourists who already buy the product (if an existing product is evaluated). In other words, this analysis shows you how many tourists visit a destination/buy a product (or similar products) and who these tourists are.

► **Supply analysis**: this helps you to assess tourist supply at a destination (e.g. natural resources, infrastructure, attractions, etc.).

► **Competitor analysis**: this shows you what other suppliers are doing and whether there is a market gap for a new product idea. It also shows you what can be done to create a competitive advantage.

► **Trend analysis**: this analysis helps you to assess basic market conditions (e.g. the influence of demographic change, more differentiated demands etc., see Fig. 3 for an overview of different trends in tourism). This part helps you to determine all relevant current and future trends that could have an influence your product.

Fig. 3: Trends in tourism

Source: based on Lohmann, Aderhold and Zahl 2004

Once you have undertaken these analyses, the next task is to use the collected information in the form of a SWOT analysis. SWOT stands for strengths, weaknesses, opportunities and threats. The aim of this analysis is to identify the crucial issues and to organise them in a way that enables you to come up with a sound strategic approach. This should enable you to:

► build on your strengths
► minimise the weaknesses
► seize your opportunities
► counter any threats

The analysis is usually undertaken in two steps:

► **Analysis of strengths and weaknesses**: based on the information gained from the demand, supply and competitor analyses, you can assess the strengths and weaknesses of your product (whether existing or to be created). If e.g. the competitor analysis has shown that there are no other suppliers offering bicycle tours in a certain destination and you want to do exactly that, then this would be a strength of the product. Conversely, if your product idea aims at a younger target group, but the demand analysis has shown that your destination attracts mostly older tourists, this would be a weakness of your product.

► **Analysis of opportunities and threats**: in the second part of the SWOT analysis, your task is to undertake an assessment of the external environmental conditions (as determined in the trend analysis) which your product faces. Environmental conditions are divided into opportunities and threats. The influence of demographic change, for example, would be an opportunity for a product targeting older people, whereas the increasing price-sensitivity of consumers could be a threat to a very expensive product idea.

Task checklist:

► Have you undertaken the demand, supply, competitor and trend analyses?
► Have you undertaken a SWOT analysis, i.e. assessed your strengths and weaknesses and the external opportunities and threats?

Further reading/links:

► For more information about market research, please refer to Günther, Meinken and Zahl (2006) for the agora guideline on market research (available on www.agora-tourism.net).
► For more information about current market trends in tourism see Paper I for product development.
► For more information about a SWOT analysis, see Paper II for product development.

Result of step 1:

► Clear idea of the requirements that the product needs to fulfil in order to be successful.

Step 2: Define aims

As the second step, you need to define the aims that you want to reach with your product. Your aims could be based on any of the four fields of the SWOT analysis, i.e. on your product's strengths its weaknesses, an opportunity or on a certain threat which needs to be encountered. You can also have several aims from different fields. If, for example, your product's weakness would be a very low occupancy rate in low season, one of your aims could be to specifically address this and to define the following aim: 'Increase occupancy rate in low season'.

All in all, you should select aims on the basis of their importance and in relation to your personal aims. You should also select your aims carefully as they will inform all further decisions you will have to make about the further product development process. Furthermore, your aims should be written in clear language, be specific, measurable and realistic and have a

certain time frame (Australian Government 2004). Usually, a time frame of three to five years would be appropriate (Glatzel 2001).

Fig. 4: Examples of appropriate aims

> ► Increase occupancy rate in autumn by 10%.
> ► Attract new target markets (measurable through a certain percentage of guests having certain characteristics).
> ► Increase number of local participants in a certain project by 5%.

Any reporting or monitoring that you undertake later on in order to assess the viability of your product should focus on the progress made with regard to the chosen aims (Australian Government 2004).

Task checklist:
► Have you defined the most important aims for your project?
► Are your aims easy to understand, specific, measurable and realistic?
► Do your aims have a timeframe?

Result of step 2:
► Clear definition of aims that direct all further product development.

Step 3: Define strategies

Once you have set the overall aims for your product, you also need to define ways or strategies to reach these. For product development, strategies especially need to be established regarding certain issues which are explained below (based on *ift* 2004). You should work on these **step by step** as they build on each other.

► **Define your target market(s):** Which target markets can your product attract now and which can be additionally attracted in the future? Target marketing can be undertaken on different bases: Often, this is done based on sociodemographic data (age, gender etc.), in relation to behaviour (e.g. people travelling with children or visiting a certain destination) or on a psychographic basis (i.e. what the customers value, e.g. price, activities, safety etc.).

► **Define customer needs:** Think about what customers in the defined target groups want from a holiday product like yours because people have different motives for going on holiday. Families, for example, are likely to want to spend time together, but parents are equally likely to want some time off from their children in order to relax. In order to attract the intended target group, your product must be able to satisfy their needs by providing certain benefits or experiences to the consumer (see next point).

► **Define USP(s) (unique selling proposition) and customers' benefits:** Determine what is really special about your product as this provides the USP(s). Customer benefits can be defined by thinking about a product as consisting of

three layers (core, tangible and augmented product, see Fig. 5 for an illustration). The last product layer, the augmented product, provides certain benefits or experiences to the consumer and if these meet the previously defined needs, then your product should be able to attract this target market. Therefore, these benefits or experiences, which are also called added value, should be the focus of any marketing communication with the potential consumer in the later stages of the development process.

► **Define possible cooperation with partners:** Consider which further product components/services (in terms of other suppliers, existing infrastructure etc.) could or should be added to improve and complement your product offer. Analyse if cooperation is a way to provide these additional components and identify suitable cooperation partners.

Fig. 5: Example for product layers of an adventure holiday product

> ► **Core product** (the essential service or benefit): Holiday
> ► **Tangible product** (the service actually offered for sale and consumed): Adventure activities undertaken
> ► **Augmented product** (the tangible product plus all added value features): Excitement, getting to know one's limits

When deciding on these strategies, you should keep your overall aims in mind. If, for example, your aim is to extend the season, then part of your target market strategy should aim at those who can travel in low season, e.g. families with small children and pensioners.

Task checklist:
► Have you defined your target market(s)?
► Have you defined the customer needs of your target market(s)?
► Have you defined the USP(s) and customers' benefits of your product?
► Have you considered cooperating with other suppliers in order to provide a better product? If you want to do this, which suppliers would be suitable?

Further reading/links:
► For more information about the advantages and disadvantages of different strategy options, see section 3.2 of Paper II.
► For more information about cooperating with other suppliers see Günther, Meinken and Winkler (2006c) for the agora guideline on strategic cooperation (available on www.agora-tourism.net)
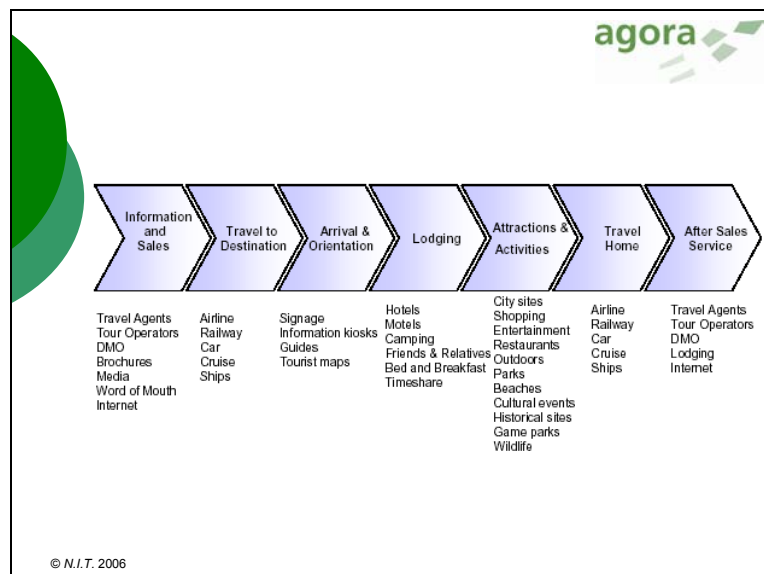
Result of step 3:
► Clearly defined strategies that will help to attract the intended target markets and reach your aim(s).

Step 4: Determine and describe product components

In the previous step, the general lines for the product to be developed were defined. Based on these, you now need to determine and describe the single product components in such a way that they are able to fulfil the requirements established by the strategies. Obviously, the single product components depend very much on the type of product you want to develop, but frequently found parts are those in the tourist value chain (see Fig. 6). Your task is now to select the required elements and put them together as one product.

Fig. 6: Tourist value chain

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Source: KPMG 2002 in WTO/WTOBC/Canadian Tourism Commission 2003

Developing sustainable tourism products

In this step, the issue of sustainability also comes into play. There are many ways to make tourism products more sustainable and these are determined by your individual situation and product idea. One way to obtain help for designing a sustainable product is to apply for a label that supports sustainable tourism. If you do not want to do this or just want to get ideas, you can also just consider the criteria of the different labels. Labels exist for tourism suppliers as well as destinations and products. Details of each of these types and existing examples are provided in the 'Labelling sustainable tourism products' section of the agora toolbox. In the following, you can also find some examples of how to make some frequently found product components more sustainable.

Fig. 7: Making transport more sustainable

> ► **Transport:** Coaches and trains are usually the most sustainable option when travelling. A train causes only a quarter of the emissions per passenger that a car has and a coach only one eight of these. Flying is the most energy-intensive mode of travelling with three times as much energy used as by both train and coach (WWF/VCD/Verbraucher Initiative 2006). Consequently, tourism products can be made more sustainable when arranging transport by train or by coach. But not only transport from and to the destination needs to be considered. Local transport at the destination equally offers possibilities for achieving more sustainability, e.g. through providing guests with access to bicycles and public transport as well as incentives to use these.

Fig. 8: Making accommodation more sustainable

> ► **Accommodation:** An example for a sustainable hotel operation is the reduction of water consumption. This can be achieved through using water-efficient shower heads and toilettes, for example. Moreover, towels and linen should only be washed as required. Clearly, this represents just one way to make accommodation more sustainable, further details can be found in the already mentioned 'Labelling sustainable tourism products' section of the agora toolbox.

Fig. 9: Making food & beverages more sustainable

> ► **Food & beverages:** Options to make eating & drinking more sustainable include the use of locally grown and produced products as well as organic products. Offering regional cuisine supports this approach, too.

Cooperation with other suppliers

In step 3, you were asked to think about whether cooperation with other suppliers is necessary or beneficial to your product idea and if so, to identify possible cooperation partners. If you want to cooperate with others, then you need to make arrangements for this cooperation at this stage. You also need to ensure that the cooperation works properly and that the partner's product part is available when needed and of sufficient quality. If this is not the case, customer satisfaction with the overall product will be severely impacted.

Describing the product details

Once you have selected all product parts and put them together, the product needs to be described in such a way that it is presentable and attractive to the potential customer. To achieve this, you should consider the following details (based on *ift* 2004):

► Marketing-orientated name for the product
► Determine period of time in which the product is to be sold, determine start dates and duration
► Define holiday destination and type
► Describe all product components: e.g. transport, accommodation, activities
► Provide facts on travel to and from the destination and location details
► Formulate a quality promise and state how it will be kept
► Give details regarding further information provision, e.g. local tourist information, regional tourist board etc.
► Clearly state where the product can be booked (including all details such as email, phone and fax numbers), where applicable also other booking channels such as tour operators or tourist information centres

Should I stress the fact that my product is sustainable?

The answer to this question depends on the target market of the product. A study on German consumers has shown that not all market segments are equally susceptible to sustainable tourism products. Only those who regard the concept of sustainability as an improvement to their holiday experience are open to such products. Most other market segments generally seem to fear that sustainable tourism would lead to behavioural restrictions and decreasing quality (Zahl and Götz 2004).

Products for the second consumer group therefore need to be designed, formulated and communicated in a way which exclusively stresses the benefits and attractiveness of the product for the consumer and not in relation to sustainability (Zahl and Götz 2004). The findings of this study also correspond to an observation that has been made elsewhere: Font and Carey (2005, p. 10) state that 'for the vast majority of consumers, sustainability will only be a consideration when other criteria, such as price, choice of accommodation and availability of activities have all been satisfied'. Hence, it follows that sustainability on its own does not suffice as an USP and should only be explicitly used where it is known that target markets will respond to this.

You may think now why products should be sustainable at all if many consumers object to the principle anyway? As explained in the introduction the reason for doing so is clearly the reliance of tourism on natural, but also on economical and social resources which necessitates a sustainable use of these assets.

Task checklist:

► Have you put together all necessary product parts?
► Have you designed your product in such a way that it meets the requirements of sustainability?
► If required, have you made arrangements with your cooperation partner(s)?
► Have you described your product in such a way that it is presentable and attractive to the potential consumer?
► Have you considered whether you should push the 'sustainability aspect' of your product to the potential consumer?

Further reading/links:

► For more information about labelling for sustainable tourism, please refer to Günther, Meinken and Winkler (2006d) (available on www.agora-tourism.net).
► The website www.visit21.net provides information about various labels for sustainable tourism throughout Europe.
► The website www.greentravelmarket.info is a database of sustainable tourism products and also provides background information on sustainable tourism (products).
► For more information about the INVENT project, see Paper I and http://www.invent-tourismus.de/ (an English version is not yet available).

Result of step 4:

► A well-developed product that is in line with the market, sustainable and ready to be marketed to the consumer.
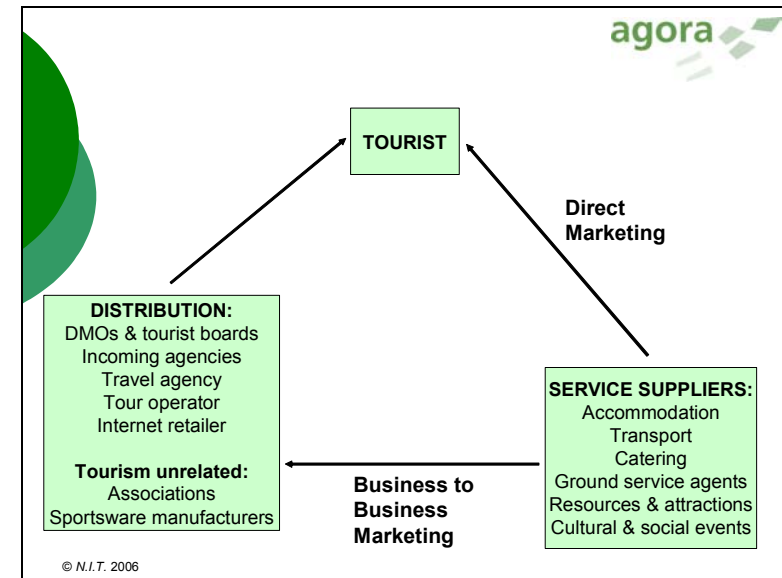
Step 5: Select distribution channels

Your product is ready to be marketed to the consumer now! To do this, the first step is to select the right mix of distribution channels for your product, i.e. those channels through which you can reach your target markets with information about your product. The basis for choosing the right distribution mix is to know how your intended target markets can be reached best. This crucial information can be obtained from different sources:

► In step 1, you have already undertaken a demand analysis. As information behaviour is an important topic in tourism demand, you probably gathered some information on this topic already in step 1. If not, you should consider the following sources for data on the information behaviour of tourists.
► If you have sold your own tourism products before, then you will probably have a good idea through which distribution channels your customers have reached you.
► Your local/regional destination management organisation (DMO) is likely to have information about tourists coming into the region and their use of distribution channels, either through guest surveys or through experience.

In general, there are two strategies for using distribution channels: business to consumer (i.e. direct marketing, also called B2C) or business to business (also called B2B). Fig. 10 gives you an illustration of these two strategies as well as an overview of different distribution channels (not all possible channels are shown, only the most important ones).

Fig. 10: Tourism distribution channels

Source: based on Font and Carey 2005

B2C or B2B?

There is no clear cut decision for or against B2C or B2B distribution strategy. Instead, you should employ each strategy for a specific purpose and use them at the same time.

Using direct distribution channels has the obvious advantage that you do not need to involve any intermediaries and that you are in direct contact with your customers (see Fig. 11 for an example of B2C distribution channels). However, the disadvantage of this strategy is that it results in only little market presence, too little for most suppliers with the outcome that the product is not economically viable.

Therefore, you should also consider using a B2B marketing strategy and distribute your product via other organisations. This will result in a wider distribution of your product, but you may also have to fulfil certain prerequisites for this: the product frequently needs to be standardised and prices should be identical for different distribution channels. Furthermore, provision needs to be paid and products should be centrally bookable (*ift* 2004).

Fig. 11: Examples of B2B distribution channels

> ► Internet: own website; joint marketing portals (e.g. local, regional or national tourist board websites)
> ► Flyer / leaflets
> ► Advertisements or reports in various media
> ► Direct mail, e.g. based on your own address database
> ► Travel fairs

Altogether, it can be said that you should use B2B distribution channels to provide you with a baseline level of business which ensures minimum occupancy rates or load factors and thus provides a contribution towards fixed costs (e.g. capital repayments and salaries). Direct distribution channels, in contrast, should primarily be used to capture repeat visitors, particular market segments and for specific promotions (Font and Carey 2005). Therefore, you should select the most appropriate distribution channels according to your target markets, but also according to your own needs and resources.

Tour operators as a distribution channel

If you consider using a tour operator as an intermediary, you should know that this is likely to have further consequences for the product: In order for a product to be sold via a tour operator, it needs to consist of at least two principal product parts which are bundled together as a package deal with a fixed programme and a fixed price (Glatzel 2001). The product quality needs to correspond to the quality of other products in the brochure and to that of the tour operator in general; hence relatively specific standards should be expected. Furthermore, the product also needs to fit in with the tour operator's offer in terms of the product theme, package type etc. Commission of a certain percentage will also be payable. Therefore, if you are considering distribution via this channel, you should contact possible tour operators as early as possible in order to determine their requirements and to be able to build these into the developing product.

Task checklist:
► Have you gathered information about your target markets' preferences regarding the use of distribution channels?
► Have you selected the most appropriate distribution channels for your target markets?

Further reading/links:
► For more information about the advantages and disadvantages of different distribution channels, see Paper II.
► For more information about marketing sustainable tourism products see Font, X. and Carey, B. (2005): Marketing Sustainable Tourism Products. Nairobi, United Nations Programme and Regione Toscana.

Result of step 5:

► Selection of those distribution channels that will reach the intended target markets and development of the right mix of channels.

Step 6: Select & design promotion tools

The selection of the right promotion strategy follows as a consequence of the distribution mix used (Font and Carey 2005). This is the case because the choice of your distribution channels determines what type of promotion is possible through these channels and also how you need to communicate with your customers. As with the distribution channels, the focus lies on selecting the right mix of promotion tools.

Promotion tools

Service marketing theory distinguishes between several promotion tools, among these are advertising, sales promotion, public relations (PR) and direct marketing (Palmer 2001). Each of them is described in the following:

► **Advertising** can be defined as mass communication used to transmit information, develop attitudes and induce some form of response (Palmer 2001). Examples include press advertising to raise awareness for a product or to form a destination image. Advertising channels that can be used include e.g. radio, TV, magazines, journals, newspapers and the Internet.
► **Sales promotion** can also be used to create awareness, but is frequently employed in the later stages of the buying process to create interest and desire and especially to bring

about action. Sales promotion can either be trade-directed (e.g. discounts for travel agency staff for selling a product) or customer-directed (e.g. 14 days for the price of 10) (Palmer 2001).

► **PR** stands for 'public relations' and describes the strategic fostering of a company's relationship with the public. It can be especially important for small suppliers for increasing name recognition, creating or improving an image and to spread news about developments. Tourist boards frequently use this means by providing journalists with free or discounted tours to their destination in return for the publication of a travel report. Small suppliers can also use PR through sending out press releases to newspapers, for example.

► **Direct marketing** is the direct approach of customers without any intermediaries in order to create and exploit a direct relationship between provider and consumer (Palmer 2001). Direct marketing has experienced a large increase due to new technology which allows organisations to target their message accurately. Hence, the Internet is one of the prime tools for direct marketing. However, the difficulty with the Internet is that consumers are increasingly being flooded with information via this means. This results in a situation where any information that has not been actively requested by the consumer has no effect at all or, in the worst case, even a negative effect.

Choosing promotion tools

Clearly, you cannot use all these tools equally well within the different distribution channels. PR, for example, would usually not be used for distribution through travel agents, but rather in newspapers instead. Furthermore, you would also design the text and images in a press release very differently from those in a tour operator's brochure, for example. Therefore, based on your distribution channel mix, you need to select the appropriate mix of promotion tools and then tailor the planned communication according to this.

Designing the content of communication

However, before doing so, you still need to determine what, i.e. the content, should be communicated to the consumer in order to convince him that this is the right product for him, i.e. which satisfies his needs. The basic content of this communication was already defined in step 3, where customer needs and benefits in relation to the product as well as the USPs were defined. Additionally, step 4 provided further input as the relevant product details were described there.

You now need to describe all this information through text and images in such a way that is suitable for the respective distribution channel and promotion tool as explained above. Images play a special role here as they capture the eye quicker than any text, are more authentic and result in a more emotional sensation on the part of the consumer.

When designing any text for marketing purposes, you should consider the best flow of information. Marketing theory has developed several models than you can use for arranging information in such a way as to obtain a response from consumers. One of these is the **AIDA** principle which is often used and stands for:

► **Awareness** (raise attention for the product)
► **Interest** (produce interest in the product)
► **Desire** (develop desire to get to know the product, i.e. consume it)
► **Action** (induce action, e.g. contact to the supplier or buying the product)

Sustainability and promotion

When designing your communication, the issue of sustainability comes into play again (as explained in step 4). As it was discussed there, certain target groups should (not) be explicitly addressed with sustainability issues and sustainability on its own does not suffice as an USP. In this step you have to take these issues into account and design your communication accordingly.

Task checklist:

► Have you selected the most suitable promotion tools for your chosen distribution channels?
► Have you considered the following aspects in designing your communication:
   ▪ Your customers' needs and benefits?
   ▪ Your product's USP?
   ▪ The detailed product information developed in step 4?
   ▪ The issue of sustainability?
► Have you considered the AIDA principle in designing your communication?

Further reading/links:

► For more information about the advantages and disadvantages of different promotion tools, see section 3.4 of Paper II

► For more information about marketing sustainable tourism products see Font, X. and Carey, B. (2005): Marketing Sustainable Tourism Products. Nairobi, United Nations Programme and Regione Toscana (Available at http://www.uneptie.org/pc/tourism/library/marketing-sustainable-tourism.htm).

Result of step 6:

► Selection of the appropriate promotion tools and corresponding design of the information to be communicated.

Step 7: Pricing

As final step in the product development process you need to set the price for your product. As tourists are becoming increasingly price sensitive, this topic is not as easy to handle as it used to be. Hence, prices have gained in importance as marketing instruments, but at the same time the scope for suppliers to set prices has also decreased. Therefore, it is very important that you make the calculations for your product on a reasonable basis. Experience has shown that this is not always the case; many suppliers set prices according to their instinct and not based on analysis or data.

Three different factors for pricing

When calculating your price, you have to consider three different factors (Glatzel 2001): Your price must be:

► Cost-orientated because your existence cannot be guaranteed if not the whole of your expenses is covered.
► Demand-orientated because your product will not be bought if it does not fit demand.
► Competitor-orientated because your product would not be competitive without this.

Cost-orientation factor

The basis for any price calculations should be the **cost-orientation factor** and therefore an assessment of your true costs. These can be divided into fixed and variable costs:

♦ **Fixed costs** or overheads are activity-independent costs, i.e. they do not vary in relation to the number of products sold. They include items such as depreciation, rent, salaries, capital repayment costs, insurance etc.

♦ **Variable costs** are activity-dependent costs, i.e. they vary in relation to sales. They include items such as taxes, marketing costs, commissions (if you want to distribute your product via a tour operator) and any other costs that stem directly from your product.

Determining the variable costs

The difficulty is that there can even be variations within the variable costs. Some variable costs accrue per guest (e.g. a breakfast), some per group of guests (e.g. a tour guide) and some for all guests (e.g. production of a brochure). Hence, your overall variable costs do not rise in a straight line with sales numbers which results in overall costs per guest being lower with higher sales numbers (Wilken, Bausch and Brittner 2005).

In order to overcome this problem, you should consider your variable costs on the basis of different sales levels. You can do this by calculating costs according to expected sales numbers as well as in a best and worst case scenario (e.g. plus or minus 5% in guests, i.e. sales numbers). The resulting cost variations help you to make a more careful variable cost estimation that is also able to absorb small decreases in your customer volume (see Step 1 and 2 in Fig. 12)

Determining the fixed costs

Next, you have to determine your total fixed costs. As explained, these do not vary with the sales volume and therefore your fixed costs per guest decrease in straight line with growing sales volume. When calculating your fixed costs, you have to do this against all sources of income. Hence, if you sell more than one product, fixed costs need to be split accordingly (see Step 3 in Fig. 12).

Break-even point and selling price

You then need to add the fixed costs per guest to the variable costs per guests. The result of this is your break-even point for any product sold at the assumed sales level. However, your aim as a commercial operation should not only be to break even, but also to make a profit. Therefore, you should add a profit margin in form of a certain percentage onto the calculated total costs of your product, which then gives you the selling price for your product (see Step 4 and 5 in Fig. 12)

Fig. 12: Example calculation for a bike tour product

Step 1: Assess all variable costs				
3 overnights	130 €	per participant		
Catering	60 €	per participant		
Bicycle rental	20 €	per participant		
Total individual variable costs	**210 €**	**per participant**		
Baggage transfers	150 €	per tour		
Tour guide (accom. & catering incl.)	600 €	per tour		
Total communal variable costs	**750 €**	**per tour**		

	Expected case		Best case	Worst case
Step 2: Calculate variable costs at different sales levels				
Number of participants per tour (own estimation)	7	participants	10	5
Number of tours per year	5	per year	5	5
No. of participants per year (No. of participants per tour x No. of tours per year)	**35**	**participants per year**	**50**	**25**
Total communal variable costs (Total communal variable costs/number of participants per tour)	107 €	per participant	75 €	150 €
Total individual variable costs	210 €	per participant	210 €	210 €
Total variable costs	**317 €**	**per participant**	**285 €**	**360 €**
Step 3: Assess all fixed costs				
Marketing costs	1.000 €	per year	No variations in relation to sales	
Insurance	500 €	per year		
Total fixed costs	**1.500 €**	**per year**		
Step 4: Calculate the break-even point				
Total fixed costs per participant (total fixed costs/No. of participants per year)	43 €	per participant	30 €	60 €
Total variable costs	317 €	per participant	285 €	360 €
Total costs	**360 €**	**per participant**	**315 €**	**420 €**
Step 5: Add a profit margin				
Profit margin %	5%	per participant	5%	5%
Total selling price	**378 €**	**per participant**	**333 €**	**441 €**

Demand-orientation and competitor-orientation

In order to produce a price that is in line with the market, you also have to consider whether your intended target market is actually able or willing to pay the calculated price (**demand perspective** on pricing). You must also pay attention to the prices that your competitors charge for the same or similar products (**competitor perspective**).

If the market price is much lower than your calculated price, you should assess your cost items critically and evaluate possibilities for cost savings. If this does not result in a reduction of the calculated price, you should consider producing the product at all or - from a strategic point of view - whether you should sell the product at break even price resulting in zero profit for you (Wilken, Bausch and Brittner 2005).

Differentiating prices

Also, you should take into account that selling a product may not always be profitable. In low season, for example, your sales are more likely not to be profitable. So, it is a good strategy to have a mixed calculation with differentiated prices (e.g. according to target group, season, weekday and booking time etc.) that allows for these variations, but results in a yearly profit overall (*ift* 2004).

Task checklist:

► Have you determined all of your variable costs and calculated these for different sales levels?
► Have you determined all of your fixed costs?
► Have you calculated the break-even point and selling price for your product?

► Have you considered your selling price in terms of what customers are willing to pay and what competitors charge for the same or similar products?
► Have you considered a differentiated pricing strategy (e.g. different prices for low and high season)?

Result of step 7:

► Development of a product price that is profitable as well as demand and competitor-orientated.

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Agora framework

The agora toolbox is part of the work package 2 (WP 2) which aims to provide and implement evaluated methodologies and to give strategic recommendations on sustainable tourism in the Baltic Sea Region (BSR). Consequently, the purpose of the toolbox is to deliver the corresponding methodologies. Moreover, in accordance with the overall aim of agora to develop and promote sustainable tourism in the rural areas of the BSR, the toolbox naturally needs to provide tools that allow for and lead to sustainable tourism development.

Sustainability has to consider three dimensions

Sustainable tourism must simultaneously fulfil the requirements of the environmental, social and economic dimension of sustainability. Sustainable tourism planning therefore aims much broader and deeper than just environment-friendly tourism or the mitigation of negative effects. Sustainable also means economically successful, but in a long-lasting balance with the social and ecological needs of the destination.

Still, despite the many definitions of sustainable tourism, the major problem remains to make these operational for practical planning and management. For addressing the ecological dimension of tourism, tools such as certification criteria or ecotourism marking criteria may be employed, for example. The social dimension of sustainability is, among others, connected with local employment as well as impacts on or support for local cultures and lifestyles. The economic dimension refers to e.g.

stability of employment over seasons, contribution to local economy and regional gross domestic product, control or leakage from the regional economy etc.

Most tools presented in the agora toolbox are methodologies designed to facilitate and optimise tourism development in general as sustainable tourism development basically employs the same methodologies. Sustainability primarily comes into the picture as a guiding principle while using the tools. Therefore, the tool box documents also give advice, as far as possible, on how sustainability can be considered in the implementation process.

Selection process for selected tools

In order to select the most appropriate and required tools and methods for developing sustainable tourism in the BSR, a determination of requirements was undertaken through the Baltic 21 Tourism Task Force (TOUTF) Network. Based on this, a pre-selection of thirteen tools was proposed to interested parties for the agora pilot projects with the request to select the most essential tools according to their perspective. This resulted in the final selection of the six tools described in the following.

Content of the agora toolbox

► **Tools for integrating sustainable tourism development with spatial planning at local and regional level:** Public participation, environmental assessments and conflict resolutions schemes are important tools to implement sustainable tourism in spatial planning processes. Selected tools will be described and their implementation will be demonstrated in a case study. A handbook will summarise the most important findings to assist developers of sustainable tourism in the Baltic Sea Region.

► **Sustainability Check for tourism projects:** In tourism, there are many so-called sustainable projects and many external funds which depend on this requirement, but no unique standard for assessing the sustainability of these projects. Therefore, the aim of the sustainability check is to develop a testing tool for the sustainability of tourism projects which can be used for assessment during proposal, implementation and post-implementation phase.

► **Market research as a capacity planning tool in tourism:** Market research is an important area in tourism as information on the requirements of consumers and competitors' activities play a major part in any tourism development and marketing. This part of the toolbox provides an overview about different issues to consider when undertaking market research and which steps need to be undertaken in order to do so. Clearly, market research in itself is not sustainable, but the information gained from it helps to use economic, natural and social resources more effectively and therefore also in a more sustainable way.

► **Developing sustainable tourism products:** In order to successfully develop sustainable tourism in the BSR, one of the most basic prerequisites is to develop products that are in line with market requirements without threatening the social and natural resources of the destination. Due to the fact that many issues need to be considered in product development, this toolbox provides detailed advice on the necessary steps in the process and illustrates where sustainability can be integrated into tourism products.

► **Labelling sustainable tourism products:** Once a sustainable tourism product is created, the next task is to communicate the product as well as its sustainability to potential customers. Applying for a sustainable tourism label can be a means of doing so as this clearly conveys the sustainability aspect of the product. Furthermore, labels also act as quality promises to the consumers because most labels require the fulfilment of certain standards. Therefore, different label types and methodologies will be illustrated in this part of the toolbox.

► **Strategic cooperation in tourism:** This issue is increasingly gaining importance as tourism suppliers are required to cooperate with others in order to overcome challenges such as an increasing competition or changing consumer demands, for example. Furthermore, tourism with its fragmented nature and interdependent product parts simply necessitates the cooperation of tourism providers. Therefore, this part of the toolbox will deal with the topic in detail. Moreover, it will also illustrate how cooperation can contribute to sustainable tourism development through its integrative approach and through the more efficient use of resources when these are pooled together.

Apart from the first tool, each of the topics is worked on in three steps: First of all, a general overview of each topic is provided (see corresponding documents on the agora website). The second step then consists of an evaluation of the tools and methods described in the overviews regarding their suitability for the agora project. As a last step, a guideline is prepared for each topic which will help to develop sustainable tourism in the BSR. The results of step 3 will also be made available on the agora website.

The present document represents the third step and therefore the guideline for the 'Developing sustainable tourism products' part of the agora toolbox.